

Message Text

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TAGS: BEXP, SA
SUBJECT: LICENSING OF NEW BANKS IN SAUDI ARABIA

REF: USDOC 16621

1. ONLY LAW GOVERNING LICENSING OF NEW BANKS IN SAUDI ARABIA IS BANKING CONTROL LAW OF 1966, WHICH REQUIRES APPLICATION THROUGH SAMA, WHICH IN TURN MAKES RECOMMENDATION TO FINMIN AND COUNCIL OF MINISTERS. APPLICANTS MUST BE SAUDI JOINT STOCK COMPANIES. FOREIGN BANKS CAN LEGALLY OPEN BRANCHES SUBJECT TO CONDITIONS TO BE RECOMMENDED TO COUNCIL OF MINISTERS BY MINFIN.

2. IN PRACTICE, HOWEVER, FOREIGN BANKS ARE UNABLE TO OPEN BRANCHES HERE AND MOST ONES ALREADY OPERATING HAVE BEEN PRESSED INTO GOING SAUDI - THAT IS, SELLING OFF THE MAJOR PART OF THEIR EQUITY. AGAIN, THERE IS NO LEGAL REQUIREMENT BUT SAG AUTHORITIES HAVE GENERALLY PRESSED FOR MINIMUM 60 PERCENT SAUDI OWNERSHIP, SPLIT BETWEEN MAJOR SHAREHOLDING INTERESTS AND ISSUE TO PUBLIC. ONE NEW JOINT VENTURE BANK HAS BEEN CHARTERED AFTER SEVERAL YEARS' NEGOTIATIONS. THIS IS SAUDI ARABIAN INVESTMENT BANKING COMPANY, WHICH IS 35 PERCENT FOREIGN HELD (20 PERCENT U.S., 15 PERCENT BETWEEN THREE EUROPEAN AND JAPANESE FIRMS); IT RECEIVED ROYAL CHARTER LAST YEAR BUT DOES NOT EXPECT TO BE IN BUSINESS FULLY UNTIL 1977 AFTER PUBLIC SALE OF STOCK AND OTHER FORMALITIES COMPLETED.

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3. IN CONCLUSION, THERE IS NO REASON TO BELIEVE THAT

SAMA OR MINFIN WOULD OPPOSE LICENSING OF NEW JOINT
VENTURE BANK. CONDITIONS HOWEVER WOULD BE SUBJECT TO
VERY LENGTHY NEGOTIATIONS. WE DOUBT, FOR EXAMPLE, IF
U.S. BANK'S 49 PERCENT POSITION COULD BE MAINTAINED
UNLESS IT HAD EXCEPTIONALLY INTERESTING PROPOSAL OR
POWERFUL SUPPORT WITHIN SAG HEIRARCHY.
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